

Headquarters USAF
Washington DC 20330-5000

15 January 1990

Comptroller

ACCOUNTING FOR OBLIGATIONS

This regulation establishes prerequisites for recording obligations. It applies to all Air Force Major Commands (MAJCOMs), the Air National Guard (ANG), US Air Force Reserve (USAFR), separate operating agencies (SOAs), installations, and activities to which funds are made available for obligation. It supersedes all conflicting instructions published by HQ USAF pertaining to prerequisites for recording obligations. This regulation implements DOD Manual 7220.9-M, chapters 24 and 25, DOD Manual 7290.3-M, chapter 3, and incorporates the fund control requirements of DOD Directive 7200.1.

	Paragraph	Page
Section A—General		
Responsibility	1	3
Terms Explained	2	3
Policy	3	3
Section B—Obligations—General		
Recordable Obligations	4	3
Contractual Documents	5	5
Documentation	6	5
Annual Appropriations	7	7
Multiple-Year Appropriations	8	11
Replacement Contracts	9	12
Section C—Obligations—Personal Services		
Pay and Allowances	10	12
Civilian Services	11	12
Military Services	12	14
Section D—Obligations—Travel and Transportation		
Travel and Related Transportation	13	14
Transportation of Government Property and Supplies	14	16
Section E—Obligations—Communications Services, Rents, Leases, and Utility Services		
Communications Services	15	16
Rental Agreements and Leases of Real and Personal Property	16	16
Utility Services	17	17
Section F—Obligations—Other Contractual Services and Acquisition of Supplies, Materials, and Equipment		
General	18	18
Contracts Between the Air Force and Contractors (Including Foreign and State Governments and Agencies)	19	18
Air Force Orders Placed With Other DOD Components or US Government Agencies	20	21

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26

AFR 170-8 15 January 1990

c. Record obligations which directly cite MAP or IMET funds using rules applicable to the particular obligating document.

d. Record obligations for reimbursable orders when accepted in writing by the performing activity.

e. Record obligations for accessorial charges based on MAP orders received. Use appropriate factors to determine amounts.

f. Record adjustments of prior-year obligations and previously unrecorded obligations against the funds current when the basic contract or order was awarded.

32. Foreign Military Sales (FMS). Obligate the FMS trust fund based on criteria of this regulation using the same rules that apply to Air Force appropriated funds. Direct-cite FMS trust fund obligation authority must be obtained before incurring obligations. FMS direct-cite payments cannot be made until expenditure authority is obtained from the Security Assistance Accounting Center at AFAPC. The Air Force manages the FMS administrative surcharge budget on an FY basis as an annual account. Record obligations against this account according to the policies in paragraph 7 for annual appropriations.

Section I—Adjustments of Obligations

33. Adjustments to Contracts. FAR part 52 provides change clauses in contracts or agreements authorizing certain amendments or modifications that may be made by the contracting officer. The appropriation initially charged when the contract was let is adjusted when the amendment or modification is "within the scope" of the original contract even though the appropriation may have expired. If the amendment or modification involves an "increase in scope," the change is considered a new obligation and is charged against funds currently available for obligation. It cannot be charged to an expired appropriation. If an increase in scope adjustment involves a multiple-year appropriation, more than one year's appropriation may be available for obligation. Obligate the FY appropriation in which the line item was approved; if no line item exists in accounts available for obligation, charge the most current multiple-year appropriation, subject to SAF/ACB issuance of a revised program. The contracting officer is primarily responsible for determining whether a change is within the

scope of the contract or is an increase in scope. In making such a determination, the contracting officer must be guided by appropriate provisions of the FAR, the DOD and AF FAR Supplements, legal principles applicable to scope changes, and the provisions of this directive. This determination does not relieve the AFO of responsibility to ensure that proper funds are charged. In cases where no clear cut determination can be made by the contracting officer, general counsel should provide guidance and determinations concerning the scope of the contract. Basic guidance is outlined below.

a. The baseline scope of a contract is all work contracted for prior to the expiration of funds. This includes changes incorporated by modification.

b. Increases in the quantity of the major items called for by a contract generally are not authorized under the changes clause. If a change increases the number of end items ordered on a contract, there is an increase in the scope of the contract. Changes in the quantity of subsidiary items under a contract, such as spare parts, generally are considered to be within the scope of a contract unless they are so significant that they alter the basic contractual undertaking.

c. Any modification of a service contract that increases deliverable services or reports is an increase in the scope of the contract. Examples follow:

(1) A modification that adds a requirement for on-site technical assistance and training to a contract that provides for accounting and auditing services would be an increase in scope. An increase in the number of people needed to complete the contract, or to their level of expertise, would be a within scope cost growth change.

(2) A contract modification to provide research and development for a new weapons system that is designed to meet a specified area of threats, and reach given levels of performance would normally be beyond the scope of the original contract. The changes clause, however, authorizes unilateral changes within the scope of the contract, in specifications, drawings, and designs. Therefore, a change in the specifications regarding levels of performance or threats does not result in an automatic change in scope. An increase in the number of people assigned to the project, or increased costs due to travel increases would be cost growth and be within the scope of the original contract.

AFR 170-8 15 January 1990

27

(3) A modification that increases the number of hours to be worked or the level of experience and training called for in a cost type level of effort contract generally would be considered an increase in scope of the original contract. An increase, however, in direct or indirect rates under the contract would be a within scope cost growth.

d. Claims arising out of an original undertaking would be funded from the appropriation on the original contract, and claims arising out of an increase in scope to the original contract would be funded from the appropriation available and charged for the increase in scope.

e. See AFR 170-21 for retroactive unit sales price adjustments between DMS, AFIF, and customers.

f. Adjust obligations payable in foreign currencies that are not designated currencies under a foreign currency fluctuation CMA account when there are significant changes in the foreign currency exchange rates which have a material effect on obligation amounts. To ensure that obligations are accurately recorded at FY-end, adjust obligations payable in foreign currencies to the exchange rate current at FY-end.

g. The amount of a recorded obligation must be adjusted to reflect an increase or decrease resulting from a determination made pursuant to the provisions of 50 U.S.C. 1431-1435 resulting in the correction of a mistake or the formalization of an informal agreement. These adjustments must be recorded against the same source of funds that originally was obligated when the amendments or modifications do not change the scope of the contract and thus do not result in a new procurement. When the scope of the contract is increased, the adjustment is chargeable properly to the appropriation or fund available at the time of the execution of the amendment.

h. When an increase occurs in the price of 1 or more items in a fixed-price contract containing an escalation clause, a price redetermination clause or an incentive provision, or in the fee in a cost-plus-award-fee or a cost-plus-incentive-fee contract, an obligation must be recorded in the amount of the increase at the time the changed price or fee is determined in accordance with the terms of the contract. The obligation must be recorded against the same source of funds that originally was obligated for the contract.

i. Within scope upward obligation adjustments against expired appropriations that ex-

ceed \$100,000 shall not be accomplished automatically. Such adjustments must be submitted to and approved by the Secretary of the Air Force or his delegates before restoration of unobligated availability may be recorded in the accounting records. The restoration process occurs at the end of each year. No "netting" of upward adjustments against downward adjustments are allowed to avoid this prior approval requirement. (See AFR 177-101, paragraphs 28-2b and 28-8, for additional guidance.)

34. Decreases—Cost-Type Contracts.

Decrease obligations on cost-type contracts when the amount obligated exceeds the amount the government will ultimately pay if there is no change in scope of the contract.

a. Normally, make such a decrease upon receipt of a formal amendment to the contract. The decrease may also be made by administrative notice when the administrative contracting officer (ACO) determines that an administrative notice should be used to speed the recoupment of funds. Where administrative notice is used, an authorized representative of the contractor must agree to the decrease. This may be done informally; for example, the contractor's representative may countersign a signed copy of the letter from the ACO to the contractor informing contractor of the proposal to decrease the amount of the obligation, and return that copy to the ACO. An oral agreement by the contractor's representative is not acceptable. The ACO determines the need for adjustments of obligated funds on contracts assigned. Based on recommendations of the ACO, the procuring contracting officer prepares and executes contractual documents to show deobligation or reobligation of funds for completion of the scope of work in the contract.

b. Later, if a reinstatement of funds is necessary, the obligation may be increased. Increase the obligation amount using the same informal procedure suggested in paragraph a. above. However, such increase must not exceed the amount of funds previously decreased by administrative notice and must be available to the procuring contracting officer for the purpose.

35. Decreases—Certain Fixed-Price Contracts.

Obligations evidenced by fixed-price contracts with escalation, price redetermination, or incentive provisions may be decreased per paragraph 34. In addition, a determination may be made by the contracting officer, and ap-



DEPARTMENT OF THE AIR FORCE
AIR FORCE MATERIEL COMMAND LAW CENTER (AFMC)
WRIGHT-PATTERSON AIR FORCE BASE, OHIO

26 May 94

MEMORANDUM FOR SAF/GCA (MR. WALTER WILLSON)
1740 AIR FORCE PENTAGON
WASHINGTON DC 20330-1740

FROM: AFMCLC/JA
Building 15
1864 Fourth Street Ste 5
Wright-Patterson AFB OH 45433-7135

SUBJECT: Funding of Change Orders - INFORMATION MEMORANDUM

1. Your assistance in finalizing the Memorandum of Law Concerning the Funding of Contract Modifications is greatly appreciated. Your 16 May 94 coordination lays the foundation for an accurate and consistent approach to funding contract modifications throughout Air Force Materiel Command.
2. Attached for your file is a copy of the final Memorandum, dated 19 May 94, together with HQ AFMC/JA, 20 May 94, letter of transmittal to all AFMC legal offices. As a result of final coordination with Mr. Janecek on 18 May 94, I added two sentences and made some minor wording and paragraph format changes on the last half of page 8 and top of page 9 of the single spaced final version (page 13 of the double spaced draft 3.5, 3 May 94, on which you coordinated). These changes are relatively minor, do not alter the conclusions in any way, and should not effect your 16 May 94 coordination.
3. Again, I want to express my thanks for the considerable time, expertise, and valuable assistance your staff, in particular Mr. Don Fox, lent to this effort and for the time and attention which you gave it personally.


ANTHONY J. PERFILIO, SES
Director

Attachment
HQ AFMC/JA Ltr, 20 May 94 w/
Arch AFMCLC/JA Memorandum
of Law, 19 May 94

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